

ST 04-0017-GIL 01/26/2004 GROSS RECEIPTS

This letter provides a reference to other General Information Letters describing the tax treatment of what are commonly referred to as "reward" credits or "hostess" credits. See ST 02-0239-GIL; ST 02-0132-GIL. (This is a GIL.)

January 26, 2004

Dear Xxxxx:

This letter is in response to your letter dated September 2, 2003, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.ILTAX.com](http://www.ILTAX.com) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

Please be advised that I represent a direct selling company that is registered to collect and remit sales taxes in your state.

My client sells products to independent business owners (IBO's) at wholesale plus shipping charges and pre-collects the sales tax on the suggested retail price plus other taxable charges.

The IBO receives profit from the difference between their cost and selling price of the products and the bonus paid by the company based on their volume of sales.

The IBO's generally sell the products using the party plan. The party plan method of selling is where the IBO holds a party at an individual's (referred to as the hostess) home. The hostess invites individuals to attend for the purpose of having the IBO display and take orders for the products.

As an incentive to hold a party, the hostess receives credits based on the purchases of the individuals they invited that may be applied to their purchases from the IBO.

Based on the above facts, my client requests a ruling on the following:

- ? When a hostess purchases products for their own use, is sales tax computed on the sales price before **or** after subtracting the credits earned?
- ? If an IBO gives a gift to a hostess for having the party at no charge, is sales tax due on the suggested retail price of the item **or** on the IBO's cost (wholesale) price?

If you have any questions regarding this request, please contact me.

**DEPARTMENT'S RESPONSE:**

We regret that we cannot provide you with a specific answer in the context of a General Information Letter at this time. Please see subsection (c) of the Department's administrative rules regarding what are generally referred to as "reward" credits. 86 Ill. Adm. Code 130. 401(c). The Department has also issued previous General Information Letters describing the tax treatment of reward credits. The following General Information Letters may be of assistance and can be viewed on the Department's Internet website described below: ST 02-0239-GIL; ST 02-0132-GIL.

I hope this information is helpful. If you require additional information, please visit our website at [www.ILTAX.com](http://www.ILTAX.com) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Terry D. Charlton  
Associate Counsel

TDC:msk